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PAGE 01 OECD P 12483 01 OF 06 290330Z

22

ACTION EUR-12

INFO OCT-01 IO-13 ISO-00 AF-08 ARA-06 EA-07 NEA-10 FEA-01

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PAGE 02 OECD P 12483 01 OF 06 290330Z

C O N F I D E N T I A L SECTION 1 OF 6 OECD PARIS 12483

E.O. 11652: GDS

TAGS: OECD, EGEN, CIEC, ETRD, EFIN, EAID, ENRG

SUBJECT: CIEC: APRIL ROUND - APRIL 26 AND 27 SESSIONS

1. SUMMARY - DURING APRIL 26-27 SESSIONS BUSINESS-LIKE ATMOSPHERE GENERALLY CONTINUED, BUT THERE WAS A NOTICEABLE SHARPENING OF TONE, PUNCTUATED BY SEVERAL BURSTS OF G-19 CRITICISM OF G-8. IN PARTICULAR, THE JAPANESE WERE SINGLED OUT FOR HARSH AND NOT CLEARLY EXPLAINABLE CRITICISM IN THE ENERGY AND RAW MATERIALS COMMISSION. BEHIND THE SCENES G-19 AND G-8 CONFERENCE CO-CHAIRMEN CONTINUED TO NEGOTIATE A POSSIBLE GENERAL STATEMENT TO BE PREPARED HERE AND READ AT UNCTAD (AN EXERCISE WHICH ULTIMATELY FAILED. SE SEPTEL)

2. ENERGY COMMISSION EXCHANGED VIEWS ON PAPERS PRESENTED BY US, EC, JAPAN AND G-19. G-19 ATTACKED DC PAPERS AS ATTEMPTS TO PORTRAY OIL PRICE INCREASES AS RESPONSIBLE FOR ALL WORLD'S ECONOMIC ILLS. DCS (INCLUDING US) RESPONDED THAT WE WERE NOT ATTEMPTING TO PIN BLAME FOR INFLATION OR RECESSION ON ANY SINGLE EVENT, BUT THAT PAPERS HAD FOCUSED ON OIL PRICE CHANGE BECAUSE THAT IS ENERGY COMMISSION'S PROPER AREA OF RESPONSIBILITY.

3. DEVELOPMENT COMMISSION DISCUSSED TRANSFER OF TECHNOLOGY APRIL 26.27. THERE WAS MORE GIVE AND TAKE ON THIS ISSUE AND WIDER G-19 PARTICIPATION THAN THERE WAS ON TRANSFER OF RESOURCES; AND G-19 REPS PRIVATELY EXPRESSED SATISFACTION WITH THE DISCUSSION. THERE WAS GENERAL AGREEMENT ON THE NEED TO IMPROVE THE TECHNOLOGICAL CAPACITY OF LDCS BUT LESS AGREEMENT ON THE STEPS NECESSARY TO ASSURE LDC ACCESS TO PRIVATELY HELD DC TECHNOLOGY. G-19 PRESENTED LONG LIST OF MEASURES FOR IMMEDIATE IMPLEMENTATION TO STRENGTHEN LDC TECHNOLOGICAL CAPACITY, AND HIGHLIGHTED NEED FOR LEGALLY BINDING TRANSFER OF TECHNOLOGY CODE OF CONDUCT AND REVISION OF PATENT SYSTEM.G-5 DELS, ESPECIALLY
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PAGE 03 OECD P 12483 01 OF 06 290330Z

U.S., PRESENTED ANALYSIS OF HOW TECHNOLOGY IS ACTUALLY TRANSFERRED (NOTING MOST TECHNOLOGICAL KNOWLEDGE IS IN HANDS OF PRIVATE SECTOR), AND OUTLINED FACTORS IN LDCS NECESSARY TO ATTRACT AND USE TECHNOLOGY AND MEASURES DC GOVERNMENTS TAKE TO ENCOURAGE AND FACILITATE TECHNOLOGY TRANSFER. ALL G-5 DELS URGED THAT ATTENTION BE FOCUSED ON CONTENT OF CODE OF CONDUCT, RATHER THAN ITS LEGAL NATURE. AT CONCLUSION,

CO-CHAIRMEN AIT CHALLAL AND WELLENSTEIN GAVE STRAIGHTFORWARD GENERAL SUMMARY OF DISCUSSION WHICH WAS ACCEPTED BY ALL.

4. FINANCE COMMISSION (FC) CONCLUDED THIS SESSION'S DISCUSSION OF ACCESS TO PRIVATE CAPITAL MARKETS AND DIRECT INVESTMENT. FC THEN MOVED ON TO G-19 PRESENTATION AND PROPOSALS RE LDC'S DEBT ISSUE AND TO LONG-AWAITED SAUDI ARABIAN STATEMENT ON SURPLUS FINANCIAL ASSETS OF OIL-EXPORTING COUNTRIES. GENERAL DISCUSSION ON THESE ISSUES FOLLOWED.

5. RAW MATERIALS COMMISSION DISCUSSED G-19 PAPERS ON PROCESSING AND MARKET ACCESS. THERE WAS COME RESPONSE BY LDC'S TO EARLIER DC COMMENTS ON STOCKING AND COMMON FUND. HIGHLIGHT OF TWO DAYS WAS LENGTHY POLEMICAL STATEMENT APRIL 26 BY LDC CO-CHAIRMAN ALZAMORA, EXPRESSING G-19 DISPLEASURE WITH "RIGIDITY" OF DC REACTION TO THEIR PROPOSALS AND SUGGESTING G-8 AND G-19 PRODUCE STATEMENT TO ENERGIZE UNCTAD IV IN COMMODITY AREA. DC'S DID NOT RESPOND AND SUBJECT DID NOT COME UP AGAIN IN PLENARY, THOUGH ALZAMORA DID SEEK TO HAVE SOME LANGUAGE INCLUDED IN STATEMENT NEGOTIATED BETWEEN TWO CONFERENCE CO-CHAIRMEN. END SUMMARY.

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PAGE 01 OECD P 12483 02 OF 06 290407Z

22
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PAGE 02 OECD P 12483 02 OF 06 290407Z

C O N F I D E N T I A L SECTION 2 OF 6 OECD PARIS 12483

ENERGY COMMISSION

AT MONDAY AND TUESDAY SESSIONS, COMMISSION EXCHANGED VIEWS ON SEVERAL PAPERS PRESENTED BY TWO SIDES, INCLUDING: US PAPER ON OIL PRICE IMPACT ON US ECONOMY AND ON LDC'S; EC PAPER ON PRICE IMPACT ON EC; JAPANESE PAPER ON IMPACT ON JAPAN AND EAST ASIA; AND G-19 PAPER ON COMPETITIVE PRICING OF ALTERNATIVE ENERGY SOURCES. MAIN THRUST OF LENGTHY G-19 ATTACKS ON DC PAPERS WERE SUMMED UP BY SAUDI REP (TAHER) WHO SAID PAPERS ATTEMPTED PORTRAY OIL PRICE INCREASES AS RESPONSIBLE FOR ALL WORLD'S ECONOMIC ILLS, FOCUSED ON SHORT-TERM INCONVENIENCES CREATED FOR DC'S AND IGNORED IMPACT OF WESTERN INFLATION ON LDC'S AND OTHER INHERENT DEFICIENCIES OF PRESENT WORLD ECONOMIC SYSTEM. TAHER SAID PAPER LACKED LONG-TERM FOCUS AND FAILED CITE POSITIVE EFFECTS OF PRICE INCREASES, SUCH AS REDUCTION OF ECONOMIC DISPARITIES BETWEEN DC'S AND LDC'S, PROTECTION OF DEPLETABLE RESOURCES, AND ENCOURAGEMENT OF DIVERSIFICATION OF ENERGY SOURCES. BY IGNORING BROADER ASPECTS, CONCLUSION OF DC PAPERS WERE FORE-

ORDAINED. THEREFORE, THESE "CONTRIVED AND AMBIGUOUS ARGUMENTS WERE COMPLETELY REJECTED BY ALL OF G-19". ALGERIAN REP MADE DETAILED CRITIQUE OF US IMPACT PAPER, STRESSING THAT ECONOMIC MODELING TECHNIQUE FORECASTING HYPOTHETICAL GROWTH SITUATION UNDER VARIOUS OIL PRICE SCENARIOS WAS HIGHLY SPECULATIVE AND THEREFORE UNACCEPTABLE. HE ALSO SAID THAT US PROJECTIONS FOR FUTURE ENERGY DEVELOPMENT PROSPECTS HAVE CONSISTENTLY BEEN FAR TOO OPTIMISTIC, CITING AS EVIDENCE FACT THAT PROJECTIONS IN ORIGINAL PROJECT INDEPENDENCE REPORT WERE CUT BACK CONSIDERABLY IN LATEST FEA NATIONAL ENERGY OUTLOOK STUDY, AND FACT THAT CONGRESS HAS REFUSED ACT ON ADMINISTRATIVE PROPOSAL FOR \$6 BILLION DOLLARS TO ACCELERATE SYNTHETIC ENERGY DEVELOPMENT. OTHER G-19 REPS ATTACKED ANALYTICAL CONCEPT OF INDIRECT IMPACT OF PRICE INCREASES, PARTICULARLY AS IT RELATES TO LDC SITUATION. IRANIAN REP (MINISTER OF STATE YEGANEH) DELIVERED SCATHING ATTACK ON UNCHARACTERISTICALLY

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PAGE 03 OECD P 12483 02 OF 06 290407Z

HIGH-PROFILE JAPANESE PAPER, WHICH DESCRIBED STRONGLY DAMAGING EFFECT OF "ABRUPT AND SHARP" OIL PRICE INCREASES ON JAPANESE ECONOMY IN 1973-74, CREATING "ECONOMIC AND SOCIAL TURMOIL". IN EXTREMELY SARCASTIC TONE, YEGANEH SAID "EVERYONE KNOWS HOW BENEVOLENT JAPAN'S CONTRIBUTION TO ASIAN ECONOMIES HAS BEEN, AND HOW OIL PRICE INCREASES HAVE DEPRIVED LDC'S OF GREAT JAPANESE BENEVOLENCE." YEGANEH THEN LAUNCHED INTO CRITIQUE OF JAPANESE" ECONOMIC GROWTH POINTING OUT THAT REAL REASONS WERE" CHEAP OIL, CHEAP COMMODITIES; USING WESTERN TECHNOLOGY BUT NOT PAYING FOR IT AS OTHERS DO; VERY LOW INTERNAL SOCIAL WELFARE AND MILITARY EXPENDITURE PROGRAMS; AND, FINALLY, DUMPING OF GOODS ON INTERNATIONAL MARKETS".

7. IN RESPONDING TO G-19 CRITIQUE, US REP POINT OUT US DOES NOT CLAIM OIL PRICE INCREASES WERE ORIGINAL CAUSE OF EITHER INFLATION OR RECESSION IN U.S., SINCE BOTH THESE PHENOMENA WERE ALREADY UNDERWAY BEFORE OCTOBER 1973, BUT LARGE AND ABRUPT INCREASES DID SERIOUSLY ACCENTUATE THESE PROBLEMS. NOR WAS US TRYING TO ASSIGN RESPONSIBILITY FOR WHAT HAPPENED IN INTERNAL ECONOMIC SECTOR TO ANY PARTICULAR PARTY. REASON FOR FOCUS ON OIL AND NOT OTHER FACTORS WAS SIMPLY BECAUSE THIS IS ENERGY COMMISSION'S PROPER AREA OF RESPONSIBILITY. WHAT US WAS TRYING TO SHOW WAS: FIRST, EFFECT OF OIL PRICE CHANGES CANNOT BE PREVENTED FROM SPREADING THROUGHOUT ALL SECTORS OF DOMESTIC ECONOMY, EFFECTING GROWTH, UNEMPLOYMENT ETC. SECOND, EFFECT OF PRICE INCREASES CANNOT BE CONTAINED WITHIN DC ECONOMIES

ALONE, BUT INEVITABLY SPREADS TO LDC'S. US DEL ALSO WELCOMED G-19 PAPER ON COMPETITIVE STANDING OF ALTERNATIVE ENERGY SOURCES (WHICH WAS GENERALLY MODERATE IN TONE) BUT TOOK ISSUE WITH PAPER'S PROJECTIONS RE FUTURE DC OIL DEMAND AND COAL AND SYNTHETICS DEVELOPMENT TO 1990. EC COMMISSION REP (WILLIAMS) MADE USEFUL INTERVENTION DEFENDING EC PAPER AND GENERALLY SUPPORTING US REMARKS. EC PRESENTATION DIFFERED IN ONE IMPORTANT ASPECT, HOWEVER, IN STRESSING IT NOT POSSIBLE TO SAY WHETHER CURRENT OIL PRICES TOO HIGH, TOO LOW OR ABOUT RIGHT AS FAR AS OPTIONAL PRICE PATH FOR TRANSITION TO

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PAGE 04 OECD P 12483 02 OF 06 290407Z

NEW RENEWABLE ENERGY ERA IS CONCERNED. (ALL US PRESENTATIONS HAVE STRESSED PRESENT PRICES ARE TOO HIGH, CREATING SIGNIFICANT MISALLOCATION OF RESOURCES).

8. JAPANESE DEL (AMBASSADOR HIRAHARA) MADE BRIEF BUT STRONG DEFENSE OF JAPANESE PAPER, POINTING OUT THAT SPECIFIC REPLY TO "SOME UNFOUNDED ASSERTIONS" BY IRANIAN DEL WOULD BE MADE AVAILABLE PRIVATELY ON REQUEST. YEGANEH RESPONDED TO JAPANESE ATTEMPT PLAY DOWN ISSUE WITH CONTINUATION OF CRITICAL COMMENTS MADE PREVIOUS DAY, ALBIET IN SOMEWHAT MORE MODERATE TONE. (COMMENT: IRANIAN "SHOKKU", WHICH HOPEFULLY WILL GO DOWN AS LOW POINT OF DIALOGUE, CREATED CONSIDERABLE EMBARRASSMENT IN JAPANESE DELEGATION AND HIRSHARA REPORTEDQLY WAS EXTREMELY ANGRY. IT APPEARED EFFORT BY IRAN TO HAMMER JAPANESE BACK INTO USUAL LOW PROFILE POSITION IN COMMISSION DISCUSSIONS, BUT IT LIKELY THAT TACTIC BACKFIRED. USDEL INTERVENED IN SUPPORT RATHER PAINFULLY ISOLATED JAPANESE DEL, EXPRESSING STRONG SUPPORT FOR "METHODOLOGY AND APPROACH" OF JAPANESE PAPER. JAPANESE DEL PRIVATELY EXPRESSED WARM APPRECIATION FOR US SUPPORT.)

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PAGE 01 OECD P 12483 03 OF 06 290434Z

INFO OCT-01 ISO-00 IO-13 AF-08 ARA-06 EA-07 NEA-10 FEA-01

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PAGE 02 OECD P 12483 03 OF 06 290434Z

C O N F I D E N T I A L SECTION 3 OF 6 OECD PARIS 12483

DEVELOPMENT COMMISSION

9. AGENDA FOR TRANSFER OF TECHNOLOGY DISCUSSION WAS DIVIDED INTO "(A) GENERAL ANALYSIS AND MEASURES TO STRENGTHEN LDC TECHNOLOGICAL CAPACITY AND (B) IMPROVEMENT OF MECHANISMS OF AND CONDITIONS GOVERNING TRANSFER OF TECHNOLOGY IN SUPPLIER AND BENEFICIARY COUNTRIES,

AS WELL AS AT THE INTERNATIONAL LEVEL, INCLUDING THE ESTABLISHMENT OF AN INTERNATIONAL CODE OF CONDUCT." G-19 POSITION PAPER WAS PRESENTED BY YUGOSLAVIA. IT LISTED 15 MEASURES TO STRENGTHEN LDC TECHNOLOGICAL CAPACITY, SOME OF WHICH G-5 DELS INDICATED THEY PURSUING (ASSISTANCE IN R&D, TRAINING, TECHNOLOGY CHOICE AND ADAPTATION, SUPPORT OF LOCAL RESEARCH INSTITUTIONS), AND OTHERS WHICH G-5 DELS SAID THEY COULD NOT ACCEPT (TARGETS FOR RESEARCH EXPENDITURES, UNRESTRICTED OR PREFERENTIAL ACCESS TO TECHNOLOGY IN HANDS OF PRIVATE SECTOR, COMPENSATION FOR BRAIN DRAIN, ETC.). G-19 ALSO CALLED FOR AGREEMENT ON TIME FRAME FOR RENEgotIATION OF PARIS CONVENTION, AND NEGOTIATION OF LEGALLY BINDING CODE OF CONDUCT.

10. U.S. ALONG WITH OTHER G-5 DELS NOTED THAT EVEN THOUGH MOST TECHNOLOGY WAS IN THE HANDS OF THE PRIVATE SECTOR, THERE WERE A NUMBER OF MEASURES GOVERNMENTS OF BOTH THE IMPORTING AND EXPORTING COUNTRIES COULD DO TO IMPROVE THE TECHNOLOGY TRANSFER PROCESS. U.S. ALSO STRESSED UNGA 7TH SPECIAL SESSION INITIATIVES.

SWEDEN SPOKE IN FAVOR OF SETTING-UP NATIONAL AND REGIONAL CENTERS FOR DEVELOPMENT, COLLECTION AND ADAPTATION OF TECHNOLOGY, BUT CANADA AND EC EXPRESSED DOUBTS THAT SUCH CENTERS WERE MOST EFFICIENT WAY TO ATTACK PROBLEM. ALL G-5 DELS INDICATED WILLINGNESS TO NEGOTIATE NON-LEGALLY-BINDING CODE OF CONDUCT, EMPHASIZING THAT THEY PREFERRED TO DEVOTE EFFORTS TO DEFINING CONTENT OF AN EFFECTIVE CODE, RATHER THAN ARGUE OVER ITS LEGAL NATURE. U.S., EC, SWEDEN, AND JAPAN ALSO INDICATED WILLINGNESS TO REVIEW PATENT SYSTEM, WHILE NOT ACKNOWLEDGING LDC CLAIM THAT PARIS CONVENTION HAD FUNCTIONED CONTRARY TO THEIR INTERESTS.

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PAGE 03 OECD P 12483 03 OF 06 290434Z

11. DELS FROM YUGOSLAVIA, ZAIRE AND ALGERIA CHARGED THAT DC GOVERNMENTS DID NOT ALLOW FULL ACCESS TO TECHNOLOGY. LATTER TWO CLAIMED THIS WAS OFTEN DUE TO COMMERCIAL MOTIVES. ZAIRE, JAMAICA, AND ALGERIA ALSO COMPLAINED THAT BIGGEST BARRIER TO ACCESS TO TECHNOLOGY WAS ITS COST AND SAID DC GOVERNMENTS SHOULD TAKE STEPS TO REDUCE OR ELIMINATE FINANCIAL BURDEN FOR LDCS. ALGERIA CALLED FOR DC GOVERNMENTS TO COMPENSATE FOR UNCERTAIN LDC ENVIRONMENT WHICH OFTEN INHIBITS PRIVATE INVESTMENT IN LDCS THROUGH MORE LENIENT RISK INSURANCE PROGRAMS. PAKISTAN DEL HELD THAT CONCLUSIONS ON MODALITIES FOR TRANSFER SHOULD BE REACHED BEFORE LDCS WERE ASKED TO PREPARE THEMSELVES TO APPLY TECHNOLOGY BETTER. UNCTAD REP ALSO SPOKE, GIVING UPBEAT PRESENTATION WHICH NOTED THAT CONSENSUS ON LDC NEEDS HAD ALREADY BEEN REACHED AND CALLED FOR ESTABLISHMENT AT

NAIROBI OF LEGALLY BINDING CODE.

12. AFTER PRESENTING SUMMARY WHICH MERELY NOTED IMPORTANCE OF TECHNOLOGY TO LDC'S, AIT-CHALLAL THEN ARGUED THAT TECHNOLOGY CODE WOULD HAVE TO BE LEGALLY-BINDING TO BE EFFECTIVE. WELLENSTEIN REPLIED THAT ITS CONTENT AND TO WHOME IT WAS ADDRESSED WERE MORE IMPORTANT ISSUES. HE ALSO ADDED THREE POINTS TO SUMMARY: (A) ACCEPTANCE OF PROPOSAL TO LOOK INTO ESTABLISHMENT OF NATIONAL AND REGIONAL CENTERS, (B) POSITIVE G-5 ATTITUDE TOWARDS ASSISTING LDC'S TO IMPROVE ENVIRONMENT IN WHICH TECHNOLOGY IS TO BE APPLIED; AND (C) AGREEMENT BY THOSE ADDRESSING ISSUE TO LOOK INTO REVIEWING PARIS CONVENTION.

13. AT CLOSE OF THIS DISCUSSION, REPRESENTATIVE OF WORLD FOOD COUNCIL GAVE PROGRESS REPORT ON IFAD (SEE SEPTEL) AND BOTH AIT-CHALLAL AND U.S. WELCOMED FORWARD MOVEMENT AS EXAMPLE OF ENERGIZING EFFECT COMMISSION COULD HAVE.

14. FINANCE COMMISSION (FC) - AT APRIL 26 FC SESSION, DISCUSSION CONTINUED ON PRIVATE DIRECT INVESTMENT WITH STATEMENT BY EC DEL ON IMPORTANCE OF PROTECTION OF FOREIGN INVESTMENT AGAINST POLITICAL RISK, NATIONALIZATION, RESTRICTIONS ON DIVIDEND TRANSFERS, ETC. EC DEL EMPHASIZED THAT PRINCIPLE OF

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PAGE 04 OECD P 12483 03 OF 06 290434Z

NATIONALIZATION WAS NOT BEING CONTESTED, BUT RATHER POINT THAT NATIONALIZATION SHOULD BE ACCCOMPANIED BY JUST COMPENSATION. HE AGAIN ASKED FOR G-19 REACTIONS TO CONSTRUCTIVE EC PROPOSALS MADE AT APRIL 21 FC SESSION ON DIRECT INVESTMENT.

15. INDIAL DEL STATED THAT THERE HAS BEEN SOME IMPROVEMENT IN UNDERSTANDING AND ATTITUDE OF DC GOVERNMENTS AND INVESTORS TOWARD LDC NEEDS, BUT THIS TREND WAS NOT UNIFORM AND THEREFORE, IN ANSWER TO SWISS QUESTION ON WHAT LDC'S WISHED DC'S TO DO TO IMPROVE MARKET PERCEPTION OF CREDITWORTHINESS OF LDC'S, INDIAL DEL SUGGESTED NEED FOR GREATER DISSEMINATION OF INFORMATION ON LDC BORROWERS AMONG

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PAGE 01 OECD P 12483 04 OF 06 290510Z

12

ACTION EUR-12

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PAGE 02 OECD P 12483 04 OF 06 290510Z

C O N F I D E N T I A L SECTION 4 OF 6 OECD PARIS 12483

POTENTIAL INVESTORS, AND TECHNICAL ASSISTANCE TO LDC

BORROWERS, AS WELL AS GREATER USE OF CO-FINANCING AND GUARANTEES. MEXICAN DEL POINTED OUT THAT IN HIS G-19 STATEMENT OF APRIL 24 TO FL, HE DID NOT PROPOSE AND INTERNATIONAL INVESTMENT GUARANTEE SCHEME, BUT RATHER INDIVIDUAL PROGRAMS.

16. SAUDIS PRESENTED LONG-AWAITED PAPER ON BEHALF OF G-19 ENTITLED, "FACILITIES AND SAFEGUARDS REQUIRED FOR INVESTMENT OF SURPLUS RESERVES OF OPEC." THEY ARGUED THAT OPEC SURPLUS WAS UNIQUE IN THAT IT RESULTED FROM FULFILLMENT OF MORAL OBLIGATION TO SUPPLY WORLD (ESPECIALLY DC'S) ENERGY NEEDS BY EXHAUSTING A DEPLETABLE RESOURCE AT RATE IN EXCESS OF PRODUCERS' IMMEDIATE REVENUE NEEDS. THUS UNIQUENESS OF OPEC ASSETS CALLED FOR SPECIAL MEASURES TO DEAL WITH RISKS AND PROBLEMS RELATED TO THEM (WITHOUT PREJUDICE TO GENERAL POSITION TAKEN BY LDC'S ON INVESTMENT QUESTIONS AT UN 6TH SPECIAL SESSION AND REFLECTED IN CERDS). THESE PROBLEMS INCLUDE: (A) EROSION OF CAPITAL THROUGH INFLATION (WORD "INDEXATION" NOT ACTUALLY USED) (B) CAPITAL LOSS RESULTING FROM DEPRECIATION OF CURRENCIES; (C) RESTRICTIONS ON MOVEMENT OF CAPITAL IMPOSED BY NATIONAL AUTHORITIES (THEY EXPECT ACCESS TO INVESTMENT OPPORTUNITIES IN DC'S TO BE AS FREE AS THE ACCESS OPEC OFFERS THEM TO THEIR OIL; (D) TAXATION OF FOREIGN GOVERNMENT INCOME (TAX EXEMPTIONS FOR OPEC ASSETS SHOULD NOT BE LIMITED TO "PASSIVE INCOME"; CAPITAL GAINS SHOULD BE EXEMPTED); (E) POLITICAL RISKS AND COERCIVE MEASURES (I.E. PROTECTION AGAINST NATIONALIZATION, FREEZING OF ASSETS, ETC).

17. IN PRELIMINARY RESPONSE TO SAUDIS (WE STATED INTENTION TO COMMENT FURTHER), U.S. DESCRIBED OUR FOREIGN INVESTMENT AND EXPROPRIATION POLICIES. U.S. STRESSED CONTINUATION OF "OPEN DOOR" POLICY CONCERNING INWARD INVESTMENT, AND EXPLAINED THAT THE FEW RESTRICTIONS ON INVESTMENT WHICH WE HAVE APPLIED

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PAGE 03 OECD P 12483 04 OF 06 290510Z

IN NON-DISCRIMINATORY MANNER AND RELATED TO DIRECT INVESTMENT (NOT PORTFOLIO INVESTMENT) IN CERTAIN CRITICAL AND STRATEGIC INDUSTRIES. RE EXPROPRIATION POLICY, U.S. DEL EMPHASIZED THAT CONSTITUTIONAL SAFEGUARDS AGAINST EXPROPRIATION (AND FREEZING) IN VIOLATION OF DUE PROCESS OF LAW OR WITHOUT COMPENSATION ARE EXTENDED TO NON-RESIDENT ALIENS. REVIEWS OF U.S. INVESTMENT POLICY IN 1973 AND 1975 (LATTER SPECIFICALLY RELATED TO QUESTION OF OPEC INVESTMENTS) HAVE RECONFIRMED BASIC POLICIES, WITH

TWO PROCEDURAL INNOVATIONS: (A) DECISION TO SEEK BETTER DATA ON FOREIGN INVESTMENT IN U.S. AND (B) TO SEEK PRIOR CONSULTATIONS WITH OTHER GOVERNMENT CONTEMPLATING MAJOR INVESTMENTS IN AREA OF U.S. NATIONAL INTEREST. U.S. ADDED THAT SPECIFIC INVESTMENT PROTECTION CLAUSES WERE INCLUDED IN MOST OF OUR BILATERAL FCN TREATIES, SUCH AS THAT WITH IRAN. U.S. ASKED G-19 TO ELABORATE FURTHER ON POLITICAL RISK PROBLEMS THEY BELIEVE THEY FACE AND SOLUTIONS THEY WOULD ADVOCATE.

18. PAKISTAN DEL DELIVERED G-19 PRESENTATION ON ISSUES OF INDEBTEDNESS (GIVEN AT APRIL 24 DEVELOPMENT COMMISSION SESSION IN SUMMARY FORM) AND CIRCULATED PAPER. IN PRESENTING PAPER HE EMPHASIZED THAT INDEBTEDNESS PROBLEM IS NOT SYNONYMOUS WITH INSOLVENCY BUT DISCUSSION OF IT IS RELATED TO LDC DEVELOPMENT AND INTERNATIONAL ECONOMIC COOPERATION. PAPER CONSISTS OF THREE PARTS. PART I SUMMARIZES QUANTITATIVE DATA IN THIS FIELD PROVIDED BY IBRD, IMF AND UNCTAD, FOCUSING ON RISING EXTERNAL PUBLIC DEBT, RISING DEBT SERVICE RATIOS, CONSTRAINTS ON LDC'S ABILITY TO IMPACT PROBLEMS OF EXPORT GROWTH, DETERIORATION OF TERMS OF TRADE. PART II OF PAPER IS SUMMARY CONCLUSIONS OF UNCTAD DEBT EXPERTS GROUP WHICH MET IN 1975. PART III OF PAPER CONSISTS OF PROPOSALS (BASED ON G-77 MANILA DECLARATION) RE INDEBTEDNESS, INCLUDING A) DEBT RELIEF BY BILATERAL CREDITORS AND DONORS TO LDC'S SEEKING IT; B) LEAST DEVELOPED LDC'S SHOULD HAVE OFFICIAL DEBTS CONVERTED TO GRANTS; C) OTHER MSA'S

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PAGE 04 OECD P 12483 04 OF 06 290510Z

SHOULD HAVE DEBTS CONVERTED TO GRANTS OR RECOMPUTED AT CURRENT TERMS BEING OFFERED BY EACH DONOR COUNTRY WITH MINIMUM GRANT ELEMENT OF 90 PERCENT; D) MULTILATERAL DEVELOPMENT FINANCE INSTITUTIONS SHOULD PROVIDE PROGRAM ASSISTANCE TO EACH LDC IN AN AMOUNT NO LESS THAN ITS DEBT SERVICE PAYMENTS TO THESE INSTITUTIONS. AS TO COMMERCIAL DEBTS, PAKISTANI DEL CALLED FOR CONSOLIDATION OF DEBTS OF INTERESTED LDC'S AND TO RESCHEDULE PAYMENTS OVER A PERIOD OF AT LEAST 25 YEARS. CONSOLIDATION AND RESCHEDULING MIGHT REQUIRE ESTABLISHMENT OF SUITABLE FINANCIAL ARRANGEMENTS, INCLUDING A MULTILATERAL FINANCIAL INSTITUTION, DESIGNED TO FUND SHORT TERM DEBTS OF INTERESTED LDC'S. IT SHOULD BE NOTED THAT PAKISTANI PAPER DID NOT MAKE SPECIFIC REFERENCE TO CONVOCATION OF DEBT CONFERENCE AND IN CORRIDOR DISCUSSIONS PAKISTAN DELEGATE TOLD US THEY FEEL

SUCH A CONFERENCE WOULD BE A DISASTER, MAXIMIZING
CONFRONTATION AND SOLVING NOTHING.

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PAGE 01 OECD P 12483 05 OF 06 290732Z

11

ACTION EUR-12

INFO OCT-01 ISO-00 IO-13 AF-08 ARA-06 EA-07 NEA-10 FEA-01

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PAGE 02 OECD P 12483 05 OF 06 290732Z

CONFIDENTIAL SECTION 05 OF 06 OECD PARIS 12483

19. SAUDI ARABIAN DEL BEGAN APRIL 27 FC DISCUSSION WITH FURTHER ELABORATION OF HIS STATEMENT OF DAY BEFORE ON TREATMENT OF OPEC ASSETS. HE DESCRIBED THREE SCENARIOS OF RELATIONSHIP BETWEEN INTEREST RATE AND ANTICIPATED RATE OF CHARGE OF OIL PRICES (I.E. GREATER, EQUAL OR SMALLER) AND NOTED THAT ONLY IN SITUATION WHERE INTEREST RATES EXCEED EXPECTED OIL PRICE RATE OF CHANGE WOULD OPEC COUNTRIES HAVE ANY INCENTIVE TO PRODUCE OIL IN AMOUNT LEADING TO FINANCIAL SURPLUS. YET EVEN IN THIS SITUATION RISKS IN INVESTMENT WOULD MAKE SAUDIS HESITATE TO MAINTAIN SUCH LEVEL OF PRODUCTION. SAUDI DEL SAID, HOWEVER, THAT SCENARIO OF INTEREST RATES BEING LOWER THAN OIL PRICE INCREASE RATE WAS MOST LIKELY SCENARIO, SO THAT UNLESS SPECIAL TREATMENT FOR OPEC SURPLUSES WERE GIVEN, THERE WOULD BE NO INCENTIVE TO MAINTAIN OIL PRODUCTION AT LEVELS ABOVE THAT NEEDED TO MEET CURRENT FOREIGN EXCHANGE REQUIREMENTS. AS TO POLITICAL RISK TO THE INVESTMENTS, HE ASKED FOR THE GOOD WILL AND FRIENDLY ATTITUDE OF HOST GOVERNMENTS -- A MODEST REQUEST.

20. IRAQI DEL EMPHASIZED NEED FOR MEASURES TO SAFEGUARD RESERVE ASSETS OF ALL LDC'S FROM DETERIORATION OF PURCHASING POWER DUE TO INFLATION AND CURRENCY FLUCTUATIONS.

21. IN PRELIMINARY REPLY TO SAUDI STATEMENT, EC DEL EXPLICITLY STATED THAT IF SAUDIS WERE ASKING FOR INDEXATION TO PROTECT FINANCIAL ASSETS OF SURPLUS COUNTRIES AGAINST INFLATION, EC WAS AGAINST THIS. INDEXATION WOULD BE DISCRIMINATORY, UNFAIR (IN DIVERTING RESOURCES FLOW FROM LDC'S TO DC'S), AND TECHNICALLY DIFFICULT TO IMPLEMENT AND CONTAIN. IT WOULD LIKELY LEAD SIMPLY TO AMPLIFYING INFLATIONARY PRESSURES. AS TO ISSUE OF PROTECTION AGAINST EXCHANGE RISK, EC EMPHASIZED THIS COULD BE LARGEY "ACHIEVED BY OPEC THROUGH GOOD MANAGEMENT AND CURRENCY DIVERSIFICATION OF ASSETS, INCLUDING USE OF UNITS OF ACCOUNT". EC

CONFIDENTIAL

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PAGE 03 OECD P 12483 05 OF 06 290732Z

DEL NOTED EFFORTS TO MITIGATE POLITICAL RISKS FOR INVESTORS BY AGAIN SUGGESTING AN EXPANSION OF PRESENT NETWORK OF BILATERAL COMMERCIAL AND OTHER TREATIES, MULTILATERALIZATION AND STANDARDIZATION OF SUCH AGREEMENTS, AND STUDY OF INTERNATIONAL INVESTMENT GUARANTEE SHCemes. EC DEL CONCLUDED BY SAYING THAT THE TENETS OF NON-DISCRIMINATION AND RECIPROCITY WILL GUIDE THEIR RELATIONS WITH ALL INVESTORS, INCLUDING OPEC.

22. TO EMPHASIZE G-19 SUPPORT MEXICAN DEL AGREED THAT OPEC SURPLUS IS A SPECIAL CASE: WHAT HAS OCCURRED IS AN EXCHANGE OF DEPLETABLE MATERIAL RESOURCES FOR OFFICIAL FINANCIAL ASSETS ABOVE AND BEYOND THE IMMEDIATE NEEDS OF THE OPEC NATIONS, IN ORDER TO MEET ENERGY REQUIREMENTS OF DC'S. WITHOUT ADEQUATE PROTECTION, VALUE OF THESE FINANCIAL ASSETS CAN DETERIORATE BEFORE THEY CAN BE USED FOR ECONOMIC DEVELOPMENT.

IN REACTION TO SAUDI PAPER SWISS AND JAPANESE DELS MADE SIMILAR PRESENTATIONS INDICATING FIRM OPPOSITION TO INDEXATION, A HELPFUL ATTITUDE TOWARD USING MARKET POSSIBILITIES TO REDUCE EXCHANGE RISK, GENERAL NON-DISCRIMINATORY TREATMENT OF FOREIGN INVESTORS AND USEFULNESS OF BILATERAL TAX AND INVESTMENT TREATIES.

24. IRANIAN DEL POINTED OUT THAT INDEXATION IS ONLY ONE METHOD OF PROTECTION OF ASSETS AGAINST EROSION BY INFLATION. THERE MAY BE OTHERS, BUT ARGUMENT ABOUT TECHNICAL COMPLEXITY IS NOT PARTICULARLY PERSUASIVE GIVEN "ESCALATOR CLAUSES" IN MANY INTERNATION CONTRACTS.

25. OECD OBSERVER NOTED THAT STOCK AS WELL AS FLOWS OF OPEC ASSETS IS RELEVANT CONSIDERATION. IF OPEC SHOULD DRastically REDUCE ITS PRODUCTION, THE EFFECT ON ITS OWN ALREADY EXISTING INVESTMENTS IN OECD COUNTRIES COULD BE CATASTROPHIC BECAUSE OF EFFECT OF SUPPLY CUTBACK ON OECD ECONOMIES.

26. US DEL (NIEHUESS) RESPONDED TO SAUDI
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PAGE 04 OECD P 12483 05 OF 06 290732Z

PRESENTATION MAKING SOME FURTHER PRELIMINARY POINTS, IN ADDITION TO THOSE MADE IN PREVIOUS DAY. HE NOTED APPRECIATION FOR ACKNOWLEDGEMENT IN SAUDI STATEMENT THAT OPEC SURPLUS NATIONS SHOULD AVOID UNSETTLING SECURITY AND EXCHANGE MARKETS AND SHOULD TAKE ACCOUNT OF SENSITIVITIES AS TO INVESTMENT IN KEY

INDUSTRIES AND PRAISED RESPONSIBLE INVESTMENT ACTIONS
OR OPEC TO DATE. US (PIZER) DISCUSSED US
VIEWS ON CLAIM OF UNIQUENESS OF OPEC SURPLUS ASSETS.
HE NOTED THAT CAPITAL STOCKS OF ALL KINDS (WHETHER
MINERALS IN GROUND OR PLANT AND EQUIPMENT) WILL BE
DEPLETED OR DEPRECIATED AS PRODUCTION OCCURS.
FURTHERMORE, DISTRIBUTION OF INVESTMENT BETWEEN INTERNAL
AND EXTERNAL ASSETS BASED ON DETERMINATIONS
BY MARKET PARTICIPANTS OR GOVERNMENTS OF LONG-RUN RE-
TURNS EXPECTED FROM ALTERNATIVE INVESTMENTS. US
(CONDIF) DISCUSSED PROTECTION OF OPEC FINANCIAL
ASSETS AGAINST INFLATION. HE EMPHASIZED EXPECTATION
OF CONTINUED PROGRESS IN COMBATTING INFLATION,
NOTING THAT CONTROL OF INFLATION ONLY REAL ANSWER TO
INVESTOR CONCERN ABOUT INFLATION. ANY ARTIFICIAL
SCHEMES TO PROTECT AGAINST INFLATION WOULD BE IN-
HERENTLY DISCRIMINATORY, RESULT IN SEVERE DISTORTIONS
IN FINANCIAL MARKETS AND IN DISTRIBUTION OF REAL
RESOURCES AS WELL AS TECHNICALLY COMPLEX TO
CONSTRUCT AND COMPLICATING
THE TASK OF REDUCING INFLATION ITSELF.

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PAGE 01 OECD P 12483 06 OF 06 290822Z

12

ACTION EUR-12

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PAGE 02 OECD P 12483 06 OF 06 290822Z

C O N F I D E N T I A L SECTION 06 OF 06 OECD PARIS 12483

27. COMMISSION ON RAW MATERIALS - APRIL 26-27 SESSIONS
ON RAW MATERIALS COMMISSION SAW CONTINUATION OF G-8
RESPONSES TO G-19 PAPERS RELATED TO UNCTAD
INTEGRATED PROGRAM AND INCLUDED SOME EXCHANGE BETWEEN
DC'S AND LDC'S ON SUBJECTS DISCUSSED EARLIER.
APRIL 26 MEETING WAS OCCASION FOR LENGTHY, POLEMICAL
ORATION BY LDC CO-CHAIRMAN ALZAMORA, WHO REASSERTED
LDC VIEW OF CIEC AS FORUM FOR POLITICAL DECISION-
MAKING, EXPRESSED G-19 DISPLEASURE WITH WHAT HE
TERM "RIGID" DC POSITIONS, AND SAID TWO SIDES
WERE MOVING TOWARD CONFLICT. ALZAMORA ALSO
SUGGESTED G-8 AND G-19 TRY TO AGREE ON SUMMARY OF
AGREED POINTS TO GIVE IMPETUS TO NAIROBI CONFERENCE.
DC'S DID NOT RESPOND AND NO MRE WAS HEARD OF
ALZAMORA INTERVENTION IN FOLLOWING DAY' PLENARY.
G-19 PAPER ON TRANSPORT/MARKETING/DISTRIBUTION IS ALL
THAT REMAINS ON AGENDA FOR FINAL DAY.

28. ALZAMORA STATEMENT: AT MID-POINT OF APRIL 26
MEETING LDC CO-CHAIRMAN ALZAMORA REASSERTED LDC
VIEW THAT PURPOSE OF CONFERENCE WAS TO TAKE POLITICAL
DECISIONS ON COMMODITY PROBLEMS AND WARNED DC'S THAT
INSISTENCE ON MAINTAINING STATUS QUO AND REFUSING
NEW MEASURES WOULD CONVERT THE DIALOGUE INTO

CONFRONTATION. HE SAID LDC'S COULD NOT UNDERSTAND RIGIDITY OF DC POSITIONS IN FAVOR OF RELIANCE ON MARKET AND CLAIMED LDC'S HAD PRESENTED CONSTRUCTIVE AND PRAGMATIC PROPOSALS FOR CHANGE. FAILURE OF DC'S TO RESPOND POSITIVELY OR TO PRESENT ALTERNATIVES SHOWED LACK OF COOPERATION AND UNDERSTANDING FROM G-8 AND WAS BRINGING CONFERENCE TO POINT OF CONFLICT. ALZAMORA RIDICULED APPROACH AND IMF COMPENSATORY FINANCING FACILITY, CHARACTERIZING LATTER AS FACILITY FOR INDEBTEDNESS RATHER THAN DEVELOPMENT. HE ALSO TOOK SLAP AT PROPOSED US INTERNATIONAL RESOURCES BANK, SAYING THAT "NEW INITIATIVES" TO PROMOTE MORE ABUNDANT SUPPLIES WOULD BE MET BY SUSPICION AND UNFAVORABLE ATTITUDE ON PART OF LDC'S UNLESS ACCOMPANIED BY NEW

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PAGE 03 OECD P 12483 06 OF 06 290822Z

RULES OF THE GAME TO ENSURE THAT LDC PRODUCERS ARE NOT HURT BY INCREASED PRODUCTION AND LOWER PRICES.

29. NOTING G-19 HAD DISCERNED SOME POSITIVE ELEMENT IN G8 RESPONSES, ALZAMORA SAID G-19 WAS PREPARED TO WORK WITH G-8 TO DEVELOP A STATEMENT WHICH WOULD HELP PROGRESS IN NAIROBI AND PRESERVE POSSIBILITIES FOR PARIS DIALOGUE. STATEMENT WOULD INCLUDE THE NEED TO TAKE MEASURES TO REDUCE MARKET INSTABILITY, TO FINANCE THEM JOINTLY, AND TO PRESERVE LDC PURCHASING POWER. NO DC'S REACTED TO ALZAMORA DECLARATION ON APRIL 26 OF FOLLOWING DAY. THERE WAS GENERAL G-8 CONSENSUS THAT ALZAMORA'S SPEECH WAS TACTIC TO INCREASE PRESSURE ON DC'S AT NAIROBI AS WELL AS PUT G-19 ON RECORD WITH G-77, AND THAT ATTEMPT TO REBUT WOULD DISRUPT OTHERWISE SATISFACTORY COMMISSION DISCUSSIONS WITH LITTLE BENEFIT TO DC'S. (NOTE - G-8 ARE UNANIMOUS IN OPPOSING ANY SEPARATE STATEMENT BY RAW MATERIALS COMMISSION.)

30. MARKET ACCESS - US, EC, JAPAN, AUSTRALIA MADE GENERALLY POSITIVE STATEMENTS ON G-19 MARKET ACCESS PAPER, THOUGH ALL EXPRESSED RESERVATIONS ON ANUMBER OF SPECIFIC G-19 PROPOSALS. EC REMARKS WERE NOTABLE MAINLY FOR THEIR LENGTH AND ATTEMPT TO PORTRAY COMMON AGRICULTURAL POLICY AS A "POLE OF STABILITY" IN COMMODITY TRADE. JAPANESE STATEMENT WAS NOT VERY FORTHCOMING IN AGRICULTURAL AREA. RELATIVELY INNOCUOUS JAPANESE REMARK ABOUT RELATION BETWEEN OIL PRICE INCREASE AND RECESSION BROUGHT FORTH PROVOCATIVELY PHASED RETORT BY VENEZUELAN DEL THAT THIS QUESTION

SHOULD BE DISCUSSED IN ENERGY RATHER THAN RAW MATERIALS COMMISSION. US AND AUSTRALIA NOTED THEIR SYMPATHY WITH LDC WISH FOR FURTHER LIBERALIZATION IN AGRICULTURE SECTOR. ASUTRALIANS SAID THEY FAVORED CODE ON CONDUCT OF USE OF MEASURES, SELF-SUFFICIENCY RATIOS, STOCKS, AND SUPPORT POLICIES.

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PAGE 04 OECD P 12483 06 OF 06 290822Z

31. PROCESSING: DC'S COMMENTS ON G-19 PROCESSING PAPER WERE POSITIVE ON WHOLE. EC STRESSED NEED TO VIEW REDEPLOYMENT OF INDUSTRY IN DYNAMIC CONTEXT AND POINTED OUT IMPORTANCE OF MEASURES TO FACILITATE INVESTMENT IN LDC'S. JAPAN EMPHASIZED PROBLEMS ON SUPPLY SIDE AND SUGGESTED INTERNAL INCOME REDISTRIBUTION AS MEANS TO CREATE LARGER DOMESTIC MARKETS. US STATEMENT FOCUSED ON REDUCTION IN TARIFF EXCALATION AND NTB'S PLUS IMPORVED MECHANISMS FOR TECHNOLOGY TRANSFER.

33. WHILE MOST SESSIONS AT COMMISSION SO FAR HAVE BEEN TAKEN UP WITH SET-PIECE STATEMENTS, THERE HAS BEEN SOME EFFORT MOSTLY BY US TO ENGAGE IN DIALOGUE. THUS US MADE REBUTTAL TO UNCTAD OBSERVERS' REMARKS ON TERMS OF TRADE ISSUE. NIGERIAN DEL GAVE G-19 RESPONSE TO DC COMMENTS OF BUFFER STOCKS, SAYING LDC'S DID NOT CONSIDER STOCKS TO BE SUFFICIENT IN THEMSELVES TO SOLVE PROBLEMS, ALTHOUGH IN THEIR VIEW VAST MAJORITY OF COMMODITIES DID REQUIRE STOCKS IF STABILIZATION WAS TO BE ACHIEVED. HE ALSO CLAIMED FINANCE HAD LONG BEEN AN OBSTACLE TO CONVLUSION OF A COCOA AGREEMENT AND TO EFFECTIVE STOCKING ARRANGEMENTS FOR TIN, AND COPPER. HE REITERATED ARGUMENTS IN FAVOR OF COMMON FUND AND ASSERTED THERE WAS NO REAL CONFLICT BETWEEN INTEGRATED PROGRAM AND COMMODITY-BY-COMMODITY APPROACH. HE SAID KEY ISSUES WERE 1) AGREEMENT TO JOINT FINANCING OF STOCKS AND OTHER APPROPRIATE MEASURES, AND 2) AGREEMENT TO NEGOTIATE AND REVISE PRICES FOR NUMBER OF COMMODITY AGREEMENTS AT AGREED INTERVALS. ARGENTINA REMARKED THAT G-19 RECOGNIZED BUFFER STOCKS WERE NOT PANACEA AND WAS MAINLY INTERESTED IN ESTABLISHING PRINCIPLE OF JOINT RESPONSIBILITY FOR FINANCING THEM WHEN THEY WER NECESSARY.

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